

STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF MARKET CONDUCT EXAMINATION
of

CASUALTY UNDERWRITERS INSURANCE COMPANY
1111 E Brickyard Rd.
Salt Lake City, UT 84106

NAIC Company Code Number: 26697

as of
June 30, 1998



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28 April 2000

Honorable Merwin U. Stewart
Insurance Commissioner
Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114

In accordance with your instructions, an examination has been made of the market conduct practices of:

CASUALTY UNDERWRITERS INSURANCE COMPANY
Salt Lake City, Utah

a domestic stock insurer, hereinafter referred to in this report as the "Company," as of June 30, 1998. Commentary in this report is as of June 30, 1998, unless indicated otherwise. The report of such examination is herein respectfully submitted.

FOREWORD

The market conduct examination report is, in general, a report by exception. Reference to Company practices, procedures, or files subject to review may be omitted if no improprieties were encountered by the examiner.

SCOPE OF EXAMINATION

An examiner representing the Utah Insurance Department conducted this examination. The purpose of the examination was to determine if the Company's operations were consistent with public interest and in compliance with:

- Utah Code Annotated (U.C.A.) Title 31A
- Rules promulgated by the Utah Insurance Department as contained in the Utah Administrative Code (U.A.C.) applicable to U.C.A. Title 31A
- Standards contained in the Market Conduct Examiners Handbook of the National Association of Insurance Commissioners (NAIC).

Files were randomly selected except as otherwise indicated. Upon review of each file, any concerns or discrepancies were delivered to the Company for its response. Some unacceptable or noncomplying practices may not have been discovered in the course of this examination.

Period Covered by the Examination

The period covered by the examination was January 1, 1990, through June 30, 1998. Significant transactions and/or events occurring after June 30, 1998, and noted during the course of the examination were reviewed.

COMPANY PROFILE

History

The Company was organized on May 28, 1986, as a property-liability insurer under the name Commercial Underwriters Insurance Company. Commercial Underwriters was issued a Certificate of Authority to transact property and general casualty, without workmen's compensation, insurance in the state of Utah on May 30, 1986. The Company's Articles of Incorporation were amended on October 31, 1986, to change the corporate name from Commercial Underwriters Insurance Company to Casualty Underwriters Insurance Company.

Shortly after its formation, the Company executed a management agreement with Inter-Americas Insurance Company, Inc. (IAIC) of Goddard Kansas. During the period June 1986 to April 1988, IAIC maintained Company operations in Utah and in Kansas. In April 1988, with the permission of the Utah Insurance Department, operations were consolidated with other affiliates in Kansas.

The Company was a wholly owned subsidiary of American Underwriters Life Insurance Company, who was the sole shareholder.

Affiliated Companies

The Company became a member of an insurance holding company system on the date of its incorporation, May 30, 1986. The Company was originally 100% owned by CU Holding Company, a Utah corporation. American Underwriters Life Insurance Company and The Donner Company each held 50% of the stock of CU Holding Company. In 1987, American Underwriters Life Insurance Company acquired The Donner Company's CU Holding Company stock, thereby becoming the sole shareholder of CU Holding Company. On September 17, 1992, the Utah Insurance Commissioner approved the dissolution of CU Holding Company resulting in direct ownership of the Company by American Underwriters Life Insurance Company.

Inter-Americas Insurance Corporation, Inc. exercised management control. The management agreement between the two was reviewed.

Territory and Plan of Operations

During the examination period, the Company maintained licenses in Utah, Idaho, and North and South Dakota. Eighty-four percent of the total premiums written, during 1997, were in the state of Utah with no premium being written in North Dakota.

On July 1, 1986, the Company formed the Casualty Underwriters Group Insurance Trust with Central Bank and Trust as trustee. The Trust held collateral protection and credit fire master policies and allowed lenders, belonging to the National Association of Financial Institutions (NAIF), to make these coverages available to their debtors. Custodial and safekeeping responsibilities, for the policies, were assumed by West One Trust Company on August 14, 1992.

Lenders, who join the NAIF and elect to participate in the trust, are allowed to offer coverages to their members. The Company began writing standard and substandard auto policies in 1997 in Utah.

Company Growth

The following schedule includes gross premium written in Utah, by line of insurance, for the indicated year. These figures were taken from the Underwriting and Investments Exhibit for the listed year.

Line of business										
	Auto physical damage		Credit		Fire		Surety		Total	
Year	Utah	% of total	Utah	% of total	Utah	% of total	Utah	% of total	Utah	Total all states
1997	\$558,475	83	0.00		\$26,039	100	\$57,022	100	\$641,536	\$758,661
1996	\$665,482	83	\$74,716	100	\$35,335	100	0.00		\$775,533	\$911,877
1995	\$1,833,815	90	\$70,853	100	\$128,268	100	0.00		\$2,032,936	\$2,233,357
1994	\$1,857,594	85	\$123,430	100	\$248,101	100	0.00		\$2,229,125	\$2,537,047
1993	\$953,842	70	\$115,369	100	246,197	99	0.00		\$1,315,408	\$1,728,433
1992	\$1,296,989	100	0.00		\$58,433	100	<u>Inland Marine</u> \$31,239 100		\$1,386,661	\$1,386,66

PREVIOUS EXAMINATION FINDINGS

The prior market conduct and financial examination reports and the Company's responses to these reports were reviewed. All concerns had been addressed by the Company.

CURRENT EXAMINATION FINDINGS

Company Operations/Management

Certificate of Authority

The Company's Certificate of Authority was expanded in November 1997 to include surety, marine and transport, and workers' compensation. The Certificate was reviewed and found to be current. The Company appears to be operating within the parameters of its certificate.

Antifraud Plans

The Company does not have a formal written antifraud plan in place.

Disaster Recovery Plan

The Company's disaster recovery plan was reviewed and it appeared to be adequate.

Computer Systems

The examiner reviewed the Company's documentation explaining file systems control. Data was stored on the file server, which was backed up nightly to tapes. These tapes were stored in a fire and tornado proof vault and were rotated appropriately. Yearly tapes are stored in perpetuity.

Year 2000 Compliance

The examiner reviewed a letter, dated September 14, 1999, from the Company regarding Year 2000 compliance. The letter stated: "All Computer hardware and operating systems have been upgraded... and the Company is ready for the Year 2000."

Complaint Handling

Complaint Handling Procedures

The examiner reviewed and compared the Utah Insurance Department's complaint log against the Company's log to verify the accuracy of the Company's tracking system. The examiner also measured the Company's response time to determine compliance with appropriate regulation. The reasons for and dispositions of the complaints were also reviewed.

The Company did not have a policy and procedure manual for handling of complaints.

Complaint File Review

Nine complaints were filed with the Utah Insurance Department, during the examination period. Five complaint files were requested from the Company for review. Following are the results of this review:

- One consumer was sold insurance for which he was ineligible, which is not in compliance with U.C.A. §§ 31A-26-303(2)(a) and 23-305(2).
- All complaints reviewed were responded to within the statutory time periods.

Marketing and Sales

Marketing

The Company marketed collateral protection, group credit fire, and group unemployment policies through lenders to individual debtors. These products were designed to pay off, or reduce, a debtor's loan balance with a lender. Each insured debtor was issued a certificate evidencing coverage under the policy.

No face-to-face contact occurs during the sale of collateral protection insurance (CPI). As a part of a loan agreement with the financial institution, the borrower agrees to maintain property insurance coverage that is sufficient to protect the collateral underlying the loan. Typically, borrowers provide a copy of their private passenger automobile declaration page at the time of loan origination.

Collateral protection basically covers harm to the collateral insured. Various riders provide for among other things: the cost to repossess the collateral, coverage of the collateral in another country, payment for mechanics' liens on the collateral, and automatic coverage.

Credit fire coverage is designed to be utilized in conjunction with the rental of consumed durables such as furniture, audio/video equipment, and other items available on a rental or rent to own basis.

Producer Relationships

The Company had no policies and procedures manual for the examiner to review as recommended by NAIC guidelines.

Four entities were paid commissions, but were not appointed as agents or brokers. This is not in compliance with U.C.A. § 31A-23-219.

Review of Files

Using interval sampling from the list of entities receiving commissions, the records of six were requested and reviewed. None of these records contained agency contracts. Representing a Company without a written agency contract is not in compliance with U.C.A. § 31A-23-309.

Underwriting/Rating

Policy Forms and Endorsements

Policy forms and other required filings were reviewed. A policies and procedures manual covering this area was requested for review. The Company does not have written procedural guidelines specifically addressing forms and required filings.

The Collateral Protection Agent Agreement states that the full compensation received by the agent shall be a commission/service fee of a percent of the premiums collected. According to U.C.A. § 31A-23-401(2)(a), no agent may receive compensation other than commission compensation. U.C.A. § 31A-23-401(1) defines commission compensation as "amounts deducted from insurance premiums."

Underwriting /Policyholder Service File Review

Underwriting files were requested for review. Based on representations of the Company, it did not maintain policyholder files since all certificates were issued by the financial institution or dealer. These were automatic issue with no underwriting involved. Since these were single premium certificates, no renewals, cancellations, or reinstatements were involved. The Company did not create individual policyholder/underwriting files for these insureds.

Claims

Claim procedures were reviewed and no concerns were noted.

Claim File Review

Eighty-five claim files were selected for review. These claims were examined according to NAIC standards. There were no discrepancies and claims were generally paid within the appropriate time periods.

SUMMARIZATION

Summary

Comments included in this report which are considered to be significant and requiring special attention are summarized below:

1. The Company did not maintain policies and procedures manuals as recommended by the NAIC. It is recommended that the Company implement written procedural manuals, or guides, and antifraud plans. Written procedures or guidelines facilitate the consistent application of management goals and directions. **(Company Operations/Management, Complaints, Producer/Relationships, Underwriting/Rating)**
2. One consumer was sold insurance for which he was ineligible. This is not in compliance with U.C.A. §§ 31A-26-303(2)(a) and 23-305(2). The examiner recommends that controls be implemented to insure that only eligible participants are sold insurance. **(Complaint Handling)**
3. The records of six producers did not contain agency contracts. Representing a Company without a written agency contract is not in compliance with U.C.A. § 31A-23-309. **(Producers)**
4. Four entities were paid commissions, but were not appointed as agents or brokers. This is not in compliance with U.C.A. § 31A-23-219. **(Producers)**

5. The Collateral Protection Agent Agreement states that the full compensation received by the agent shall be a commission/service fee of a percent of the premiums collected. According to U.C.A. § 31A-23-401(2)(a), no agent may receive compensation other than commission compensation. U.C.A. § 31A-23-401(1) defines commission compensation as "...amounts deducted from insurance premiums." It is recommended that "service fee" be eliminated from the agents' agreements because service fee implies compensation other than commission. (Underwriting)

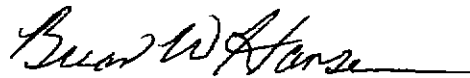
Examiner's Comments in Reference to Policyholder Treatment

Generally, members appear to have been treated correctly and fairly by the Company. Recorded complaints were researched and responded to in a timely manner.

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during this examination is hereby acknowledged and appreciated.

Sincerely



Brian W. Hansen, FLMI, CFE, AIE
Market Conduct Examiner
Utah Insurance Department